

SUMMARY.

The Philippine market offers many good opportunities for sellers of U.S. cosmetic products, particularly skincare preparations and special skin formulas. Total importation of cosmetics, toiletries and personal care products (lip and make-up, perfumes, soaps and shampoos, skin and nail care preparations) was valued at US\$136 million in 2005.

The bulk of the cosmetics industry is supplied by local production. Importation continues to grow. Cosmetics and toiletries imported from Thailand dominate the market for a straight second year, although U.S. manufacturers maintain a reputation for high quality and brand recognition among Filipino consumers. Filipino clients are familiar with and have an affinity for American brands.

Among the top American imports in the sector are lipstick, oil-free make-up foundations, perfumes, skin cleansers, facial cleansers, soaps, shampoos and conditioners. Price is a strong determining factor in most Philippine cosmetic purchases. American firms such as Avon, Colgate-Palmolive, Johnson & Johnson, Procter & Gamble, Sara Lee and Unilever Corporation have manufacturing facilities in the Philippines but also bring in some of their stocks from the U.S. and elsewhere. Their domestic and imported products are readily available in most retail outlets.

MARKET OVERVIEW.

The Philippines's importation of cosmetic products and toiletries increased by US\$4 million – from US\$131 million in 2004 to US\$136 million in 2005. About US\$95 million are toiletries and US\$41 million are make-up. Thailand was the top supplier with 38% market share; Malaysia was second with 26%; and the U.S. third with 7%. U.S. imports are mostly make-up and skincare products by suppliers such as Estee Lauder, Clinique, NuSkin, Max Factor, Maybelline, and Mary Kay. These brands are considered more expensive than locally manufactured make-up or those imported from other Asian countries.

Importations from Thailand and Malaysia consist of toiletries that were formerly manufactured in the Philippines -- Sunsilk, Creamsilk, Pantene, Head & Shoulders, and Rejoice.

Some local cosmetics and toiletries, however, are U.S. brands manufactured locally – Avon, Colgate-Palmolive, Johnson & Johnson, and Sara Lee. Procter & Gamble Philippines, which for almost 50 years had one of the largest manufacturing operations in Asia, is now only distributing in the Philippines. Its stocks are imported from Thailand.

The demand for cosmetics and hair, skin and nail care continue to grow with the increasing awareness for health and beauty. The market includes very young consumers (mostly female) who are very concerned about grooming; they drive demand for make-up that is especially prepared for young skin, and scents that are suitable for young consumers.

Toiletries represent almost 70% of importation. Industry notes that demand for toiletries will continue to grow as companies make the products affordable to consumers by selling them in mini packs called sachets. Shampoos, hair conditioners, and skin lotions

are available in 5-gram and 10-gram plastic or foil packages. These are meant for one-time use but most consumers (usually from the lower socio-economic class) could stretch the supply by diluting the product. Although quality is a primary factor in this market, consumers are also price-conscious. Manufacturers address these market demands by coming up with innovative products like the twin (sachet) pack good for use by an entire family, or a limited edition jumbo (sachet) pack that has “2 grams more” of the product in a regular sachet. Competing manufacturers spend a fortune on advertising, bringing the “shampoo war” on national television.

While most of the population buy toiletries, not everyone could afford imported make-up, especially known brands such as Estee Lauder, Clinique, Lancome, L’Oreal, NuSkin, Max Factor, Shiseido, Kanebo, Mary Kay, or Maybelline. End users of imported make-up include women from rich families and the growing number of women with purchasing power.

The products covered in this brief and their corresponding HS codes and Tariff rates are:

HS Codes	Product Description	Tariff Rate (2005)
30033900	Medicaments containing Hormones...but not containing Antibiotics, nesoi	3%
30040000	Dermatological Agents and Local Anesthetics	5%
33030000	Perfume, Toilet Water	7%
33041000	Lip Make Up Preparations	7%
33042000	Eye Make Up Preparations	7%
33043000	Manicure, Pedicure Preparations	7%
33049100	Beauty/Make Up Preparation/Skin Care, Sunscreen/Sun Tan Preparations (Other than Medicaments)	7%
33049900	Other Beauty/Make Up Preparation/Skin Care, Sunscreen/Sun Tan Preparations (Other than Medicaments)	7%
33051000	Shampoos	10%
33052000	Preparations for Permanent Waving/Straightening	10%
33053000	Hair Lacquers	10%
33059000	Other Preparations for the Hair	10%
33071000	Pre-Shave/Shaving/After-Shave Preparations	7%
33072000	Personal Deodorants and Anti-Perspirants	5%
33073000	Perfumed Bath Salts & Other Bath Preparations	10%
33074100	Agarbatti & Other Odoriferous Preparations w/c operate by burning	7%
33074900	Other preparations for Perfumery/Deodorizing Room, incldg Odoriferous Preparations	7%
33079000	Other Perfumery, Cosmetics/Toilet Preparations, N.E.S.	7%
34011100	Soaps & Organic Surface-Active Products... in Bars, Cakes...	10%
34011900	Other Soaps & Organic Surface-Active Products... in Bars, Cakes...	10%
34012090	Soaps in Other Forms, N.E.S.	3%

Source: Philippine Tariff Commission 2005 reference

REGULATORY ISSUES.

Foreign suppliers usually appoint a local distributor to represent their interests in the Philippines. The distributor handles all aspects of importation including registration and obtaining a license and a getting customs clearance for the products. Distributors not only help facilitate the product's entry into the market, but will also take care of advertising and promotion through sales and dealer networks. Distributors must register with the Bureau of Food and Drugs before operating.

The Bureau of Food and Drugs monitors and regulates the cosmetic industry in the Philippines. Cosmetics may be distributed only after having been officially registered with the Bureau of Food and Drugs. The registration process at the Bureau of Food and Drugs is from 6 to 18 months. The Bureau of Food and Drugs monitors and regulates food, drugs and cosmetic products. It has adopted the U.S. pharmacopoeia for regulating cosmetic products and raw materials for cosmetic production.

The following are the Philippine regulations on cosmetics and raw materials/ingredients for cosmetic products:

Administrative Order No. 150 s. 1971	Regulation Part D-4 Cosmetic: Listing of Cosmetic Specialties
Administrative Order No. 29-A s. 1994	Regulation Part D-5 Cosmetic: Listing of Cosmetic Specialties
Administrative Order No. 13 s. 1999	Use of Hydroquinone and Tretinoin (Retinoic Acid)
*Bureau Circular No. 12 s. 1997	1997 Updated Listing of Cosmetic Ingredients
Bureau Circular No. 6 s. 1999	Revised BC 4 s. 1999 "New Protocol for Registration of Drugs, Foods, Cosmetics and Medical Devices"
Bureau Circular No. 8-A s. 1999	Guidelines in the Collection and Submission of Samples of Foods, Drugs, Cosmetics and Medical Devices for Physico-Chemical Analysis
Bureau Circular No. 23 s. 1999	Exfoliant and Exfoliate as Permissible Claims for Cosmetics
Bureau Memorandum No. 21 s. 1995	List of Permissible Claims for Cosmetic Preparations
Memorandum Circular No. 3 s.1992	List and Amount of All Ingredients Used As a Component of the Finished Cosmetic Specialty
*Memorandum Circular No. 19-A s. 1992	Specific Standards and Requirements

These circulars are subject to change upon the implementation of the ASEAN Harmonized Cosmetic Regulatory System.

Information on these regulations and registration requirements for cosmetics, toiletries and fragrances are available on the Bureau of Food and Drugs website:

www.doh.gov.ph/BFAD

BEST PROSPECTS.

Shampoos, skin whiteners (cleansers, toners and moisturizers), and other beauty products find a ready market among young women. Products such as facial and underarm whitening creams, hair rebonding products, and make-up such as colored pressed powder, liquid foundation, rouges, blushers, and scents (toilet water/colognes, body sprays) have always been consumer favorites.

Men have also become increasingly willing to splurge on beauty products, although the majority of buyers are still female.

Sellers of cosmetics and toiletries are eager to tap into the huge youth market, especially when it comes to personal care products.

DISTRIBUTION CHANNELS.

Some stores display shelves upon shelves of skin whitening products. Most companies now include a whitening component throughout their entire product line, from soaps and moisturizers to toners and sunblocks and creams. Generally, local and imported cosmetic products are sold in retail outlets -- department stores and most drug stores and supermarkets. In some instances, these are also sold through multi-level marketing /direct selling or through dealer networks.

High-end cosmetics, personal care products and toiletries are usually found in specialty stores or a special section of department stores. More affordable brands are in department stores and drug stores, or sold through multi-level marketing.

Companies wanting to introduce new products in the market should appoint a distributor with a sales network covering the entire country. This will ensure broad exposure for their products.

Print and broadcast media are important when introducing a product in the Philippines to help build brand name and product recall.

The Philippines imposes 3%-10% tariff duty and a 12% value-added tax (VAT) on imported cosmetic products. The VAT is based on the valuation determined by the Bureau of Customs for the application of customs duties, plus those duties themselves, excise taxes, and other charges (i.e., charges on imports prior to release from customs custody, including insurance and commissions).

The Bureau of Customs (BOC) has the full responsibility for all customs valuation, classification, and clearance functions. Cosmetics importers or their agents are required to file import entries with the Bureau of Customs (BOC). The bureau has issued a series of regulations governing the implementation of transaction value and outlining procedural steps importers need to follow.

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The U.S. Commercial Service in Manila has helped several U.S. cosmetics firms enter the Philippine market. For more information on the market and market entry services for U.S. exporters, please contact:

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